



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Memorandum

Date DEC 9 1992

From Bryan B. Mitchell *Bryan Mitchell*
Principal Deputy Inspector General

Subject Review of the State of Connecticut
Internal Service Funds (A-01-92-02504)

To Arnold R. Tompkins
Assistant Secretary for
Management and Budget

The purpose of this memorandum is to alert you to the issuance on December 11, 1992 of our final audit report. A copy is attached.

The subject review was performed by Tichenor & Associates, certified public accountants, under a contract with the Department of Health and Human Services, Office of Inspector General, Office of Audit Services. The review was conducted in accordance with generally accepted government auditing standards.

The Office of Management and Budget Circular A-87 provides that federally-assisted programs assume their fair share of costs associated with State and local operations; however, no provision for profit or other increment above cost is intended.

The primary objective of the review was to determine if the internal service funds have: (1) accumulated unnecessary surpluses due to excessive rates used to charge Federal programs, and (2) included unallowable costs such as interest expense in the rates used to charge Federal programs. We concluded that Connecticut's Bureau of General and Technical Services charged user fees for services that generated profits and increased the Bureau's retained earnings account balance. Also, improper withdrawals and transfers from the accounts and unallowable interest expense charged to the funds have understated the Bureau's retained earnings. The review disclosed that Connecticut's Bureau of General and Technical Services Internal Service Funds had accumulated a reserve balance totalling \$30.5 million in excessive retained earnings as of June 30, 1990.

The State agency's response disagreed that the retained earnings balance reflected excessive amounts because profits were offset against future indirect costs, but did not provide supporting documentation. The State Comptroller's Office subsequently provided documents to show how the profits were purportedly rebated. The

documentation provided to support the State's position did not provide sufficient competent evidential matter to determine whether the excess profits generated during the period under review were rebated through future years indirect cost rate determinations. However, through additional analysis we found that during the 5 years covered by the audit period, over \$16 million in excess profits were identified and only \$9.7 million were found to be offset against future indirect costs (Exhibit B). We were unable to conduct a similar analysis for the \$12.7 million in reported retained earnings generated prior to the start of the audit period because the State agency was not able to provide records. In addition, the review identified improper withdrawals, transfers and charges to the internal service funds totaling approximately \$1.8 million.

We concluded that the internal service funds generated a retained earnings surplus of \$30.5 million. We noted that \$17.8 million (\$16 million plus \$1.8 million) were related to the five year audit period, however, we could only verify that the State made an adjustment for \$9.7 million against future indirect costs. Accordingly, we are recommending that the State adjust the remaining \$8.1 million (\$1.62 million Federal share) of the excessive retained earnings in its internal service funds for the 5 year period ending June 30, 1990. For the \$12.7 million in retained earnings generated prior to our audit period, we are recommending that the Division of Cost Allocation (DCA) negotiate a settlement of the Federal share.

We are also recommending that during the review and approval stage of the cost allocation plan, the DCA should ensure that the State has made the appropriate adjustments to its internal service fund operations. The specific recommendations to correct the problems noted call for the State to: (1) revise the contribution rates charged for technical services and fleet operations to obtain break even rates and not generate excessive profits; (2) remit all future excess profits to the users on a monthly or quarterly basis; and (3) discontinue the practice of allowing profitable operations to absorb the losses of nonprofitable operations and others that do not have statewide cost allocation plan rates.

If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE
STATE OF CONNECTICUT
INTERNAL SERVICE FUNDS**



CIN: A-01-92-02504



Office of Audit Services
Region 1
John F. Kennedy Federal Building
Boston, MA 02203
(617) 565-2884

CIN: A-01-92-02504

William Curry, Comptroller
State of Connecticut
55 Elm Street
Hartford, Connecticut 06106

Dear Mr. Curry:

Enclosed for your information and use are two copies of an audit report titled REVIEW OF CONNECTICUT DEPARTMENT OF ADMINISTRATIVE SERVICES BUREAU OF GENERAL AND TECHNICAL SERVICES INTERNAL SERVICE FUND SURPLUSES.

The audit was performed by Tichenor & Associates, Certified Public Accountants, under contract with the Department of Health and Human Services, (HHS), Office of Inspector General (OIG) Office of Audit Services (OAS). The audit was done in accordance with generally accepted government auditing standards. Your attention is invited to the audit findings and recommendations contained in the report.

The primary objective of the review was to determine if the internal service funds have (1) accumulated unnecessary surpluses due to excessive rates used to charge Federal programs, and (2) included unallowable interest expense in the rates used to charge Federal programs. We concluded that the Bureau of General and Technical Services charged user fees for services that generated profits and increased the Bureau's retained earnings account balance. Also, improper withdrawals and transfers from the accounts and unallowable interest expense charged to the funds have understated the Bureau's retained earnings. The review disclosed \$30.5 million in excessive retained earnings.

The State agency responded that the retained earnings balance did not reflect excessive amounts because profits were offset against future indirect costs. However, through additional analysis we found that during the five years covered by the audit period, over \$16 million in excess profits were identified and only \$9.7 million were found to be offset against future indirect costs. We

were unable to conduct a similar analysis for the \$12.7 million in reported retained earnings generated prior to the start of the audit period because the State agency was not able to provide records. In addition, the review identified improper withdrawals and charges to the internal service funds totalling \$1.8 million.

We concluded that the internal service funds generated a retained earnings surplus of \$30.5 million. We noted that \$17.8 million (\$16 million plus \$1.8 million) were related to the five year audit period, however, we could only verify that the State made an adjustment for \$9.7 million against future indirect costs. Accordingly, we are recommending that the State adjust the remaining \$8.1 million (\$1.62 million Federal share) of the excessive retained earnings in its internal service funds for the 5 year period ending June 30, 1990. For the \$12.7 million in retained earnings generated prior to our audit period, we are recommending that the Division of Cost Allocation negotiate a settlement of the Federal share.

We are also recommending that the State: (1) revise the contribution rates charged for technical services and fleet operations to obtain break even rates and not generate excessive profits; (2) remit all future excess profits to the users on a monthly or quarterly basis; and (3) discontinue the practice of allowing profitable operations to absorb the losses of nonprofitable operations and others that do not have statewide cost allocation plan rates.

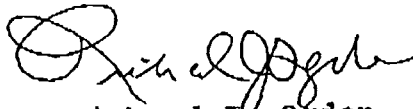
The conclusions and recommendations for cost disallowances contained in this report represent the findings and opinions of the HHS/OIG/OAS. Final determinations on these matters will be made by the appropriate HHS official. The official named below will be communicating with you in the near future regarding the implementation of these items.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), Office of Inspector General, Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Page 3 - Mr. William Curry

To facilitate identification, please refer to the referenced common identification number in all correspondence relating to this report.

Sincerely,

A handwritten signature in dark ink, appearing to read "Richard J. Ogden". The signature is fluid and cursive, with the first name "Richard" being more prominent.

Richard J. Ogden
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to:

Mr. James Keene
Director, Division of Cost Allocation
Department of Health and Human Services
Room 41-118
26 Federal Plaza
New York, NY 10278

REPORT ON
REVIEW OF CONNECTICUT
DEPARTMENT OF ADMINISTRATIVE SERVICES
BUREAU OF GENERAL AND TECHNICAL SERVICES
INTERNAL SERVICE FUND SURPLUSES
HARTFORD, CONNECTICUT
(CIN A-01-92-02504)

Prepared by:

Tichenor & Associates
Certified Public Accountants
Woodbridge, Virginia

Under Contract No. HHS-100-91-0018 with the
U.S. Department of Health and Human Services
Office of Inspector General
Office of Audit

TABLE OF CONTENTS

	<u>Page</u>
EXECUTIVE SUMMARY	i
INTRODUCTION	1
Background	1
Purpose and Scope of Review	2
FINDINGS AND RECOMMENDATIONS	3
Finding 1 - Retained Earnings Generated by Internal Service Funds	3
Finding 2 - Withdrawals and Charges to the Internal Service Fund Accounts	5
Auditee's Comments	6
FOLLOW-UP ON PRIOR AUDIT REPORTS	7
EXHIBITS	
A - Computation of Excessive Retained Earnings	8
B - Computation of Profits Reported and Adjusted	9
C - Auditee Response	10

EXECUTIVE SUMMARY

Pursuant to Delivery Order No. 12-06 under Contract No. HHS-100-91-0018 with the U.S. Department of Health and Human Services (DHHS), Tichenor & Associates, CPAs, performed a review of Connecticut's Department of Administrative Services-Bureau of Information Systems and Data Processing and Bureau of Purchases internal service fund operations. The primary objective of the review was to determine if the internal service funds have (1) accumulated unnecessary surpluses due to excessive rates used to charge Federal programs, and (2) included unallowable costs such as interest costs in the rates used to charge Federal programs.

As provided under the U.S. Office of Management and Budget (OMB) Circular A-87, the State of Connecticut, Department of Administrative Services, Bureau of General and Technical Services prepared the State Wide Cost Allocation Plans (SWCAPs) for approval by the U.S. Department of Health and Human Services (DHHS), Division of Cost Allocation (DCA). The SWCAPs approved by DCA were used to determine function cost center rates for charging users.

We concluded that the Bureau of General and Technical Services charged user fees for services such as data processing and fleet operations that generated profits and increased the Bureau's retained earnings account balance. Also, improper withdrawals from the accounts and improper expenses charged to the funds have understated the Bureau's retained earnings. The retained earnings with the necessary adjustments and allowances for operating capital reflected a balance of \$30,593,278 in excessive charges as of June 30, 1990, which should be returned to the users of the services.

We could not quantify the portion of the excessive retained earnings applicable to Federal funds. Therefore, we used the DHHS-DCA standard estimate of 20 percent to identify the Federal share of \$6,118,656.

We recommend that the State comply with SWCAP procedures to adjust rates to the level required to break even and not generate excess profit. Also, we recommend that the DHHS, Division of Cost Allocation conduct a detailed analysis of the profits generated and the reported rebates to determine the amount that should be returned to the U.S. Treasury.

During the exit conference, the State officials agreed that surpluses existed and rates were questionable for some functions. The amount of the existing surplus and the procedures to eliminate the surpluses were not discussed in detail.

The Commissioner, Connecticut Department of Administrative Services, responded to our draft report on February 3, 1992. The State disagreed with our recommendation in Finding No. 1 to recover the excess profits and did not address the other recommendations. The response stated that the Connecticut SWCAP was in accordance with OMB Circular A-87 because the

State adjusts its SWCAP indirect costs to reflect the changes in the revolving fund's retained earnings accounts.

Documentation was requested from the State Comptroller's Office to support the auditee's contention that internal service fund profits were adjusted through future years indirect cost rates.

The Comptroller's Office provided schedules which allocated part of the retained earnings to State Departments, but did not provide sufficient competent documentation to show that the profits were adjusted in future indirect cost rate determinations. Therefore, we could not determine how much, if any, of the profits were adjusted through future rate adjustments. Also, we have reviewed OMB Circular A-87, the DHHS guide "Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Grant and Contracts with the Federal Government" and had discussions with DHHS, Division of Cost Determination Management personnel and concluded that it was not acceptable for the State to refund the excess profit through the indirect cost rate. The DHHS guide states that excess profits may be rebated through future indirect cost rates if the amounts are not material. However, the profits generated by the State averaged over \$3 million per year for the 5 years covered in our review and we consider this material.

We revised the recommendations in Finding No. 1 to address the response. However, the recommendations in Finding No. 2 have not been changed because the State response did not address these recommendations.

TICHENOR & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

WASHINGTON OFFICE

13625 OFFICE PLACE

SUITE 101 - VILLAGE SQUARE

WOODBIDGE, VA 22192

PARTNERS

WILLIAM R. TICHENOR

JONATHAN D. CROWDER

BUSINESS (703) 680-1004

METRO (703) 352-1417

FAX (703) 680-9426

Mr. Richard J. Ogden
Regional Inspector General for Audit
DHHS, OIG
JFK Federal Building
Boston, MA 02203

Dear Mr. Ogden:

Pursuant to Delivery Order No. 12-06 under Contract No. HHS-100-91-0018 with the U.S. Department of Health and Human Services (DHHS), Tichenor & Associates, CPAs, performed a review of Connecticut's Department of Administrative Services-Bureau of Information Systems and Data Processing and Bureau of Purchases internal service fund operations.

INTRODUCTION

BACKGROUND

Internal Service Funds provide the basis for a uniform approach to the problem of determining costs and to promote efficiency and better relationships between Federal and State governments. The funds account for goods or services provided to other units of government on a cost reimbursable basis. The State of Connecticut, Department of Administrative Services operated internal service bureaus for (1) Information Services and Data Processing and (2) Purchasing until July 1, 1989, when they were consolidated as the Bureau of General and Technical Services.

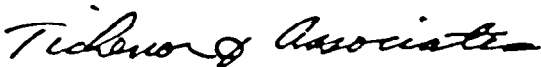
The Bureau of Information Services and Data Processing included rates for personal services as well as charges for computer time and storage facilities. The Bureau of Purchases included a (1) central print shop, (2) central warehouse, (3) central laundry, (4) bakery, and (5) fleet operations, in their approved rates in the State Wide Cost Allocation Plan (SWCAP). Also, the Bureau of Purchasing had other functions such as meat processing, mail and courier service, disposal of state surplus property, and surplus Federal property, distribution of Federal donated foods, photocomposition, and central advertising which did not have SWCAP rates established. During the period covered in our review, the bakery, photocomposition, and central advertising functions were terminated.

PURPOSE AND SCOPE OF REVIEW

Our review included an audit of the Department of Administrative Services' Bureau of Information Systems and Data Processing and Bureau of Purchases operated by the State of Connecticut. The primary objectives of our review were to determine if the Bureau of Information Systems and Data Processing and the Bureau of Purchases internal service fund operations have (1) accumulated unnecessary surpluses due to excessive rates used to charge Federal programs, and (2) included unallowable costs such as interest costs in the rates used to charge Federal programs. Also, we were requested to estimate the financial impact on federally funded programs and recommend appropriate financial adjustments and procedural changes. The audit guidance provided to us by DHHS-OIG dictated that we should use information available in financial reports rather than performing audits of the fund accounts. Therefore, this report does not reflect the allowability of the recorded costs.

Our audit included reviews of audit reports issued by the Auditors of Public Accounts; general purpose financial statements issued by the State; statewide cost allocation plans; financial documentation maintained by the bureaus; and discussions with responsible State officials. Due to the limited objectives of our review, we did not include a study and evaluation of the State agency's system of internal controls. Our review was conducted in accordance with Government Auditing Standards.

The audit period covered Connecticut's SWCAP's and financial reports prepared for fiscal years ending June 30, 1986 through 1990. The field work was conducted between October 21 and November 1, 1991, at various State offices in Hartford, Connecticut.


TICHENOR & ASSOCIATES
Certified Public Accountants
November 1, 1991

FINDINGS AND RECOMMENDATIONS

Our review disclosed that the Bureau of General and Technical Services charged fees for services that generated profits for five fiscal years ending June 30, 1990. These profits and related adjustments for improper withdrawals and expenses increased the Bureau's Retained Earnings account balance which reflected an excessive balance of \$30,593,278 as of June 30, 1990. We determined that the Federal share of this Retained Earnings balance was \$6,118,656, as discussed below, and recommend that the State refund the Federal share not rebated through indirect costs to the U.S. Treasury.

Finding No. 1 - Retained Earnings Generated by Internal Service Funds

The Auditors of Public Accounts' reports on the State of Connecticut, Division of Administrative Services reported \$28,819,732 in retained earnings and reserves from services provided under the State Wide Cost Allocation Plan (SWCAP). After adjustments for improper withdrawals and unallowable expenses, excessive retained earnings were estimated at \$30,593,278, of which \$6,118,656 is estimated as the Federal Government share. See Exhibit A for details.

Office of Management and Budget Circular A-87 provides that Federally-assisted programs assume their fair share of costs associated with State and local operations, however, no provision for profit or other increment above cost is intended.

GENERAL SERVICES

General Services generated \$12,046,423 in profits during the 5-year period covered by our review. The profits were generated almost exclusively from fleet service operations (\$11,948,599) and accounted for over 99 percent of the profit generated by General Services. The fleet rates were not established in accordance with the requirements of OMB Circular A-87, rather the figures used to support the SWCAP rates were inflated by (1) using depreciation figures based on the most recent purchase price, rather than the depreciation of the total inventory; (2) using rental rates which included an unallowable inflation allowance each vehicle month (\$21.24); (3) adding \$10 each month to the rental rate for each vehicle with air conditioning, while the cost was already in the rate computation; and (4) adding arbitrary percentages between 6.3 and 8.0 percent after the figures were compiled. All of these factors served to increase the rental rates charged each month. These inflated rates were established and used because the previous Commissioner of the Division of Administrative Services believed that fleet operations should make a profit to cover the expenses of the other groups within the bureau who did not break even. These inflated rates were brought to the attention of management in the last two audit reports that covered our review period and issued by the Auditors of Public Accounts. The Auditors of Public Accounts recommended that "Fleet vehicle rates be lowered to ensure that user charges are equitable and that net profits are reasonable and not exorbitant."

As of November 1, 1991, no changes in the rates have taken place and the excessive rates are still being charged.

TECHNICAL SERVICES

Technical Services reported \$4,041,186 in net income in the 5-year period ended June 30, 1990, and had a total retained earnings of \$7,053,659 as of June 30, 1990. The income and retained earnings would have been larger except Technical Services rebated \$6,007,891 to the users by not billing them for services which were provided. An additional rebate was proposed but, the Commissioner, Department of Administrative Services would not approve the rebate of the April 1987 billing.

Recent profits were attributed to the new Eligibility Management System (EMS) which manages the State's public assistance program. The EMS used more machine time than projected which resulted in extra income with minor additional costs.

RECOMMENDATIONS

The State of Connecticut should:

1. Revise the rates charged for technical services and fleet operations to obtain break even rates and not generate excessive profits.
 2. Remit all future excess profits to the users on a monthly or quarterly basis.
 3. Discontinue the practice of allowing profitable operations to absorb the losses of nonprofitable operations and others that do not have SWCAP rates.
 4. Work with the DHHS, Division of Cost Allocation to:
 - A. Determine the portion of the excessive profits that were rebated to the originating agencies.
- AND
- B. Remit to the U.S. Treasury 20 percent of the profits not remitted to the originating agencies.

Finding No. 2 - Withdrawals and Charges to the Internal Service Funds

In addition to the retained earnings recorded in the financial statements there were improper transfers and withdrawals made from the funds (\$1,710,400) and unallowable interest expenses (\$63,146) were charged to the fund expenses which improperly reduced the recorded retained earnings.

OMB Circular A-87 provides that general government costs and interest costs are not allowable.

The state legislature directed that \$3,000,000 be transferred from the Internal Service Fund to the State General Fund during fiscal year 1990. This was accomplished by reducing the Working Capital-Advanced From the General Fund by \$1,950,000 and transferring \$1,050,000 from the Internal Service Fund retained earnings account.

During fiscal year 1990 Technical Services purchased a new mainframe computer and obtained 5,080 hours of professional services valued at \$660,400. The professional services were not used in support of the new computers or the fund rather, the professional services were used to develop a State Purchasing and Distribution system and the fund was not reimbursed for the costs. The State Auditors, in their last audit report, recommended that the funds be recovered and used to benefit the revolving fund. Management has agreed that the funds should be recovered and were reportedly working toward that end but, as of November 1, 1991, the funds had not been returned.

The Print Shop recorded interest expenses for each of the 5 years covered by our review and incurred \$63,146 in unallowable interest.

RECOMMENDATIONS

The State of Connecticut should:

1. Refund \$1,050,000 from the General Fund of the State to the General and Technical Services fund.
2. Reimburse the General and Technical Services fund for the \$660,400 in services transferred out of the account.
3. Reimburse the General and Technical Services fund for the \$63,146 in unallowable interest expenses from the General Fund.

AUDITEE'S COMMENTS

The auditee response, dated February 3, 1992, disagreed with our original recommendation in Finding No. 1 to recover \$6,118,656 in excess profit charged to Federal programs, but did not provide documentation to support their contention that the profits were adjusted.

The State Comptroller's staff subsequently provided documents to show how the profits were purportedly rebated.

AUDITOR'S CONCLUSIONS

The documentation provided to support the State's position did not provide sufficient competent evidential matter to determine whether the \$16 million in excess profits generated during the 5 years under review were rebated through future years indirect cost rate determinations (See EXHIBIT B) because:

1. The amounts reportedly adjusted by the State Comptroller's Office did not agree with the profits reported. During the 5 years covered by the detailed audit period, over \$16 million in excess profits were identified but only \$9.7 million were reportedly adjusted.
2. The purported adjustments reported by the Comptroller's staff cannot be directly related to the amounts reported in the SWCAP.
3. Profits and losses from accounts not included in the SWCAP were included with the profits reported for the Bureau of Purchases.

The adjustments did not address the \$1.77 million in improper charges and withdrawals identified during our audit. In addition, we did not conduct an analysis of the \$12.7 million in reported retained earnings generated prior to the start of our audit period on July 1, 1985.

We have revised Recommendation No. 1 to recommend that the DHHS Regional Division of Cost Allocation work with the State of Connecticut to determine what portion of the excessive profits were rebated to the State agencies through indirect cost rate adjustments and require the Federal share of the unrebated funds be remitted to the U.S. Treasury. Recommendation No. 2 still recommends that the \$1.77 million in improper withdrawals and charges be remitted to the funds from the General Fund of the State.

FOLLOW-UP ON PRIOR AUDIT REPORTS

We obtained copies of four audit reports which covered the operations of the Bureau of General and Technical Services and its predecessor bureaus during the period we reviewed, July 1, 1985 through June 30, 1990. The audits were issued by the Auditors of Public Accounts, State of Connecticut. The auditors recommended in June 1988 and again in May 1991 that the fleet rental rates be reviewed and revised to ensure that users are charged equitable rates. These recommendations were not implemented as of November 1, 1991.

The auditors recommended in August 1991 that \$660,400 be recovered to benefit the General and Technical Service fund because of the improper transfer. This recommendation had not been implemented as of November 1, 1991.

BUREAU OF GENERAL AND TECHNICAL SERVICES
DEPARTMENT OF ADMINISTRATIVE CONTROLS
STATE OF CONNECTICUT

COMPUTATION OF EXCESSIVE RETAINED EARNINGS

<u>Transactions</u>	<u>General Services</u>	<u>Technical Services</u>	<u>Total</u>	<u>Notes</u>
Balance 6/30/90	<u>\$21,766,073</u>	<u>\$ 7,053,659</u>	<u>\$28,819,732</u>	1
Adjustments:				
Add:				
Improper transfer	1,050,000		1,050,000	2
Improper withdrawals		660,400	660,400	2
Unallowable expenses	<u>63,146</u>	<u> </u>	<u>63,146</u>	2
Total Adjustments	<u>\$ 1,113,146</u>	<u>\$ 660,400</u>	<u>\$ 1,773,546</u>	
Excess Retained Earnings	<u>\$22,879,219</u>	<u>\$ 7,714,059</u>	<u>\$30,593,278</u>	
Federal Share at 20 Percent of Total	<u>\$ 4,575,844</u>	<u>\$ 1,542,812</u>	<u>\$ 6,118,656</u>	3

- (1) Retained earnings balances including reserves from audited financial statements.
- (2) Discussed in Finding No. 2.
- (3) The DHHS Division of Cost Allocation uses a standard estimate of 20 percent, for Federal participation, when no other reasonable estimate is available.

EXHIBIT B

BUREAU OF GENERAL AND TECHNICAL SERVICES
DEPARTMENT OF ADMINISTRATIVE CONTROLS
STATE OF CONNECTICUT

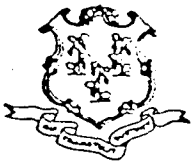
COMPUTATION OF PROFITS REPORTED AND ADJUSTED

	Fiscal Year					Total
	1986	1987	1988	1989	1990	
Bureau of Purchases:						
Net Profit Reported	\$2,938,374	\$2,424,750	\$1,785,120	\$2,528,491	\$2,369,688	\$12,046,423
Adjustments Reported by Comptroller's Office	<u>2,938,376</u>	<u>2,424,748</u>	<u>1,785,121</u>	<u>307,043</u>	<u>-¹</u>	<u>7,455,288</u>
State Difference	(2)	2	(1)	2,221,448	2,369,688	4,591,135
Tichenor Adjustments ²	<u>18,088</u>	<u>18,447</u>	<u>12,159</u>	<u>7,895</u>	<u>1,050,000</u>	<u>1,050,000</u>
					<u>6,557</u>	<u>63,146</u>
Underrecovered	<u>18,086</u>	<u>18,449</u>	<u>12,158</u>	<u>2,229,343</u>	<u>3,426,245</u>	<u>5,704,281</u>
Bureau Data Processing:						
Net Profit Reported	\$ 151,468	\$2,621,755	\$ 103,934	\$ (598,735)	\$1,762,764	\$ 4,041,186
Adjustments Reported by Comptroller's Office	<u>294,045</u>	<u>2,486,256</u>	<u>25,249</u>	<u>(565,174)</u>	<u>-¹</u>	<u>2,240,376</u>
State Difference	(142,577)	135,499	78,685	(33,561)	1,762,764	1,800,810
Tichenor Adjustments ²					660,400	660,400
Underrecovered	<u>(142,577)</u>	<u>135,499</u>	<u>78,685</u>	<u>(33,561)</u>	<u>2,423,164</u>	<u>2,461,210</u>
Grand Total Unrecovered	<u>\$ (124,491)</u>	<u>\$ 153,948</u>	<u>\$ 90,843</u>	<u>\$ 2,195,782</u>	<u>\$ 5,849,409</u>	<u>\$ 8,165,491</u>

¹Rates were not adjusted for FY90.

²See Finding No. 2.

AUDITEE RESPONSE



STATE OF CONNECTICUT

DEPARTMENT OF ADMINISTRATIVE SERVICES



received
2/7/92

February 3, 1992

Mr. Jonathan D. Crowder
Tichenor and Eiche
Certified Public Accountants
Washington Office
13225 Office Place
Suite 101 - Village Square
Woodbridge, VA 22192

Re: Control No. A-01-92

Dear Mr. Crowder:

This Department is in receipt of the HHS/OIG Office of Audit Services draft report prepared by your firm titled, "Report on Review of Connecticut Department of Administrative Services, Bureau of General and Technical Services, Internal Service Fund Surpluses" (Control No. A-01-92). Please be advised that we disagree with some of the conclusions reached and consequently the recommendations made in the report.

In particular, we believe that the retained earnings within our two revolving funds have been properly taken into account each year by the State Comptroller's Office in the development of the Statewide Cost Allocation Plan (SWCAP) in accordance with U.S. Office of Management and Budget (OMB) Circular A-87. In developing the rates for the indirect costs it recovers from the Federal Government, the Comptroller's Office adjusts its SWCAP Plan to reflect changes in the Revolving Funds' Retained Earnings Accounts. Therefore, we feel that most of the \$6,118,656 identified by your firm as being due to the Federal Government by the State of Connecticut is not in fact owed. We believe that if you were to contact the State Comptroller's Office and/or the State Auditors of Public Accounts they would be supportive of our position in this matter. As an example, we point to the recently concluded audit of our Technical Services Revolving Fund by the State auditors (through 6-30-90) which found that any profit during the period audited was in accordance with OMB Circular A-87 and was also taken into account by the State Comptroller's Office in the development of the SWCAP Plan.

The rates in our Technical Services Revolving Fund are reviewed and revised annually based on our best estimates/projections of the usage of our services. During each of the past several years when the rates proved to be too high, we have given rebates to our customers. In our General Services Revolving Fund, we are in the process of revising our rate structure so as to be in compliance with OMB Circular A-87.

Phone :

State Office Building • Hartford, Connecticut 06106

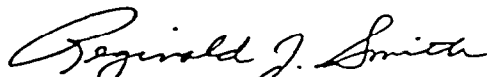
An Equal Opportunity Employer

Mr. Jonathan D. Crowder
Page 2
February 3, 1992

In conclusion, we believe that the audit report prepared by your firm failed to reflect the relationship between our revolving funds and the SWCAP Plan. We would suggest that your firm discuss this matter further with Mr. Robert Kinnin in the State Comptroller's Office. It is our understanding that Mr. Kinnin normally coordinates such reviews for the State and is also responsible for the preparation of the SWCAP Plan. Mr. Kinnin may be reached at (203) 566-5337.

Following your review of this matter with Mr. Kinnin, we would be happy to discuss any remaining issues with you.

Sincerely,


Reginald J. Smith
Commissioner

cc: Deputy Comr. Granquist
Deputy Comr. Negri
CBannon
RCosgrove
EGLaski
RKinnin
RWallace
TWillametz
File